

**Atlantic Coast Local Development Program
(NI-0107)**

EXECUTIVE SUMMARY

Borrower:	Republic of Nicaragua	
Executing agencies:	Social Investment Fund (FISE); The North Atlantic Autonomous Region (RAAN); The South Atlantic Autonomous Region (RAAS); Ministries of Health (MINSA) and Education (MEDC).	
Amount and source:	IDB: (FSO)	US\$ 8,000,000
	Local:	US\$ 892,479
	Sub-Total:	US\$ 8,892,479
	IDB: (FSO non-reimbursable TC)	US\$ 330,000
	Local:	US\$ 33,000
	Sub-Total:	US\$ 363,000
	Total:	US\$ 9,255,479
Financial terms and conditions:	Amortization Period:	40 years
	Grace Period:	10.5 years
	Commitment Period:	3.0 years
	Disbursement Period:	3.5 years
	Interest Rate:	1% first ten years and 2% thereafter
	Supervision and Inspection:	1% of loan amount
	Credit Fee:	0.5% p.a. on undisbursed balance
Objectives:	<p>The objective of this program is to strengthen the governance capacity of Atlantic Coast institutions to guide and manage the region's sustainable development. Specifically, the program will: (i) strengthen Regional Government capacity in financial management, administration and development planning; (ii) create community and municipal capacity in project identification and land use planning and natural resource management through the introduction of a participatory planning methodology (PPM); and (iii) undertake innovative interventions that will address the key issues and lay the basis for strengthened regional delegations of the health and education ministries.</p>	
Description:	<p>The program is conceived as a cross-sectoral operation. It is founded on the dual premise that the development of the Atlantic Coast is conditioned by the capacity of its institutional framework and that the weak and incipient Regional Governments can become competent development counterparts through a process of learning by doing. The program envisages substantial investments</p>	

in training, technical assistance and other capacity building activities so local people can acquire the skills to manage development programs.

Capacity building activities will strengthen the role of Regional Governments as facilitators rather than as direct providers of services. In this respect the financial resources available for local investments will be used to finance viable local projects with satisfactory rates of social returns and will act as an incentive to adopt institutional reforms that might otherwise face substantial barriers. The program seeks to build working relations between Regional and Municipal Governments and between Regional and Central Government. The program builds on the Atlantic Coast development programs financed by other financial and development institutions and is designed to promote further coordination between the proposed operation and these ongoing efforts during execution.

The program consists of three components (i) Institutional strengthening of the Regional Governments; (ii) Local investments in participatory planning and small-scale priority projects; and (iii) Innovative interventions in: (a) health and (b) education. Program management activities will also be financed.

Institutional strengthening of the Regional Governments (US\$2,487,015)

This component will finance a technical assistance package to enhance the capacity within the Regional Governments to fulfill their strategic responsibilities in: (i) assisting Municipal Governments to develop their administrative, planning and financial capacity for these to assume their corresponding responsibilities; and (ii) co-ordination of inter-institutional efforts to define sustainable regional development strategies.

The technical assistance package will cover four key areas: (i) introduction of an organizational structure designed to meet the Regional Governments' strategic responsibilities; (ii) modernization of administrative and financial procedures through the introduction of SIGFA¹ compatible systems; (iii) design of mechanisms to support the financial sustainability of Regional and Municipal Governments; and (iv) creation of Regional Technical Units (RTUs) within the Regional Governments. The RTUs will assist the development of financial, accounting and internal control systems within the Regional Governments. The RTUs will also support: (a) the development of Municipal Government capacity in the areas of administration, land use planning, and natural resource

¹ Sistema Integrado de Gestión Financiera, Administrativa y Auditoría

management; and (b) the introduction of PPM to identify local priority projects as well as its incorporation into a process of regional planning and public investment programming.

Local Investments (US\$2,000,000.)

This component will finance two sets of activities. It will finance the implementation of a PPM at the municipal level that will identify priority projects (US\$400,000). It will also provide financial resources for investment in priority local projects (US\$1,600,000).

The availability of funds for investments in priority projects will provide an incentive for the Regional Governments to adopt sound management practices that would otherwise face substantial barriers. Access to the resources for priority projects will therefore be conditioned upon the Regional Governments achieving acceptable levels of performance previously agreed upon with the Bank, as measured by benchmark indicators.

Innovative Interventions in Health and Education (US\$ 3,196,005.)

This component will finance selected innovative interventions in health and education designed to generate pertinent lessons that will: (i) address Atlantic Coast specific problems in the sector; (ii) inform national policy debates; and (iii) integrate Atlantic Coast issues into national sector plans. The program will support a pilot project in telemedicine and the introduction of a new model of school supervision. The program does not aim to address all the health and education problems of the region but rather to make a modest contribution in addressing priority issues through enhancing the provision of services at the regional level and strengthening the institutional presence of the respective line ministries.

Regional Drug Prevention Plan (US\$363,000)

Due to the region's location along a cocaine transshipment route, local consumption of cocaine and crack-cocaine has increased significantly over the last few years. In coastal indigenous communities, escalating levels of drug-related violence and crime are eroding traditional community structures. Non-reimbursable FSO resources (US\$330,000) will finance a technical cooperation that will support activities for the prevention of illegal drug consumption in Atlantic Coast communities. The Plan of Operation is attached as Annex III.

Program Management (US\$ 928,500)

The program will count with an administrative and supervision scheme as follows. The Consejo Coordinador of the Fondo Social

Suplementario (FSS) will be expanded and will have overall responsibility for ensuring the program objectives are attained, and will establish the general norms. It will also approve the program operating regulations, facilitate inter-institutional coordination, act as a forum for integrating Atlantic Coast issues into national social policy, and provide no-objections to the annual operating plans and general reports that will be presented to the Bank. The expanded Consejo Coordinador of the FSS will be integrated by the Ministries of the Treasury and Public Credit, Education and Health, the Governments of the RAAN and the RAAS, a representative of the donor community, the Secretaría Técnica de la Presidencia (SETEC) that will chair the Consejo, and the Social Investment Fund (FISE) which will act as secretary.

The program will set up a Program Coordination Unit (PCU) that will be located in the Social Investment Fund (FISE). The PCU's responsibilities will include the implementation activities related to dealing with the Bank and the coordination of the activities of the executing entities of the different components of the program. Financial resources will also be provided for the annual program audits.

**Relationship of
Project in Bank's
country and
sector strategy:**

The program conforms to the Bank's local development strategy for Nicaragua that seeks to advance decentralization and build the capacity of local institutions and municipal government to promote sustainable development processes. The program supports the Bank's sector strategies in health and education by strengthening decentralized and autonomous units such as health centers and schools, improving the quality of health services and primary education in rural areas and seeking cost-effective solutions to improve service delivery.

The program incorporates the results of the wide consultations held with local stakeholders during program preparation. The program also reflects the close coordination established with other donors with Atlantic Coast projects. Program implementation will promote further coordination with Sida and DANIDA, specifically around the institutional strengthening and local investment components.

**Environmental/
social review:**

The proposed program will help strengthen the land use planning and natural resource management expertise in the Regional Governments and at the municipal level on the Atlantic Coast. Access to the financial resources available for investments in priority projects will be conditioned upon Regional Governments meeting benchmark indicators in areas that embrace basic land use planning and natural resource management. In the development of the priority projects the program will ensure the implementation of proven environmental assessment procedures developed by the

FISE.

The program will introduce participatory methods for the identification of priority local investments. By building consensus on priority investments, project ownership and sustainability will be enhanced. Participatory methods will help ensure that specific demands of each indigenous and ethnic population are addressed. The PPM operating regulations will be developed to ensure the effective participation of women throughout planning and project activities.

Benefits:

The modernization of the Regional Governments' financial administration systems will provide the framework for a transparent and accountable management of all public funds channeled through the Regional Governments. The Program will also introduce a practice of regular audits with the expectation that this will contribute to improved public administration.

The program will produce benefits at the local level in terms of expanded opportunities for communities and municipalities to participate in the identification of priority local investments. Building stronger relationships between Regional Governments, municipal authorities and communities will also produce greater accountability and introduce greater efficiencies around the use of public resources. The commitment of beneficiary groups to provide counterpart funding for example will generate efficiencies around project ownership and sustainability.

The program will support the development of critical technical expertise within the Regional Governments through creation of the Regional Technical Units. These units will support the development of the key strategic functions of the Regional Governments. Coordination with other donors will be promoted through the design of the PPM as well as the allocation of financial resources available for priority local investments.

In addition to addressing key regional problems in health and education, program-financed interventions will generate lessons for future action. A successful telemedicine pilot would provide the lessons to replicate the experience at the national level with a view to improving the MINSA's referral system, provide on-the-job training to physicians and upgrade the national network of epidemiological control. Similarly, the new model of school supervision for the Atlantic Coast will strengthen the capacity of Regional Delegations to undertake supervision and provide lessons in an area that is still unattended by the MECD's educational reforms.

Risks:

The operation's success depends on the ability of the Regional Governments to develop the capacity to guide and manage

regional development processes based on a deepened decentralization. The operation's feasibility therefore rests upon the political will to undertake the required improvements and on the continued participation of local actors who ensure that the institutional strengthening of the Regional Governments is as much grassroots as donor driven. In this regard, a participatory program preparation process has promoted Regional Government ownership at each stage. This has already resulted in decisions by both Regional Governments to introduce reforms into their financial management, administration and planning systems along the lines of the performance improvements sought by the program.

The program involves a wide range and a large number of different institutional actors both from the Atlantic Coast and Central Government. Program execution will depend upon close and effective inter-institutional collaboration and a shared understanding of lines of responsibility, reporting and decision-making among the different participating institutions. To minimize the execution risk the roles of each participant institution and the inter-institutional framework will be clearly defined in the Program Operating Regulations.

The program will face significant challenges as it builds execution capacity at the level of the Regional Governments. Financial resources are therefore available to contract technical assistance in key areas. In addition, the Program Coordinating Unit will also provide advice and technical support. Furthermore, the Bank will support execution with the contracting of a full time consultant who will assist program supervision throughout its duration.

The success of the health and education components is predicated on the creation of effective communication channels between the central ministries and the Regional Units. These channels have been historically weak due to technical and cultural factors. The program has directed resources to address this issue and to improve coordination between the executing units and the other units at the central level.

**Special
contractual
clauses:**

1. Prior to first disbursement

- i) Standard Conditions prior to first disbursement
- ii) Evidence that the Program Operating Regulations previously agreed upon with the Bank have entered into force (para 3.13);
- iii) Evidence that the agreements between the Borrower and the FISE and between the FISE and the executing institutions for the transfer of Program resources and Program execution have entered into force (para 3.1).

2. Prior Condition to the disbursement of resources for local investments (Component 2)

i) The Bank's acceptance of the certification by the firm undertaking the concurrent audits that the Regional Governments have reached required performance levels previously agreed upon with the Bank (para 2.24 and 3.14).

3. Prior Condition to the disbursement of resources for the health sub-component (Component 3)

i) The Bank's approval of the operational plan of the telemedicine pilot project (para 2.30).

In addition, the loan contract shall contain other standard clauses related to, inter alia, monitoring and evaluation, auditing, maintenance, the procurement of goods, and the contracting of services.

Poverty-targeting and social sector classification:

The program qualifies as a social equity/poverty reduction project as described in the indicative targets mandated by the Bank's Eighth Replenishment (Document AB-1704).

The program also qualifies as a poverty targeted investment (PTI) because of its geographical location (para 1.2). The borrowing country will be using the 10 percentage points in additional financing (see Par. 2.39).

Exceptions to Bank policy:

None

Procurement:

All contracting will follow the Bank's standard policies. International Competitive bidding will be required for construction works of US\$1.0 million or more, goods and services of US\$250,000 or above and Consulting Services in excess of US\$200,000. Works, goods and consulting services below these sums will be subject of the procedures attached to the loan contract, and summarized below.

Modality	National Public Competitive Bidding (NPCB)	Private Competitive Bidding (PCB)
Works	Between US\$150,001 to US\$999,999	US\$150,000 and under
Goods and Services	Between US\$100,001 and US\$249,999	US\$100,000 and under
Consulting Services	Between US\$100,000 and US\$200,000	US\$99,999 and under

